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SUBJECT: EGYPTIAN TOURISM INDUSTRY REFLECTS ON DIFFICULT YEAR AND  
LOOKS AHEAD TO 2010

Sensitive but Unclassified. Please handle accordingly.

1.(SBU) Key Points:

--Tourism arrivals and revenues decreased by 5.4% and 6.4% respectively through the first eight months of 2009.

--Industry officials are cautiously optimistic that they have successfully weathered the global economic recession, health crises, and early start of Ramadan that contributed to these declines.

--Increased tourism growth is projected to come from a stronger commitment to attracting Central and Eastern European tourists, targeting new markets in India and China, and reshaping Egypt's image as a low-budget destination.

¶2. (U) Econoffs met with Ahmed El-Nahas, chairman of the Egyptian Tourism Federation (ETF), on December 2 to discuss the challenges faced by the tourism industry this year. ETF is the industry's dominant lobbying body and represents five tourism business associations. It is closely affiliated with the Ministry of Tourism (MoT).

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Revenue and Tourist Arrivals Shrink in 2009  
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¶3. (SBU) ETF and MoT project a moderate decline in the number of tourist visits and revenues for 2009, two key industry benchmarks, after steady increases in both areas over the last three years. Through the first eight months of 2009, tourist arrivals decreased by 5.4%. ETF predicts the country will receive slightly more than 12 million visitors this year, down from 12.8 in 2008 but still ahead of the 11.1 million visitors seen in 2007. American tourist arrivals also fell during the same period this year. After reaching a three year high in 2008 with more than 319,000 Americans visitors, a 17% increase over the previous year, the number of Americans arriving in Egypt this year will drop by an estimated 5%.

¶4. (SBU) El-Nahas told us that tourist revenue was expected to be down 6-7% in 2009. Egypt generated USD 10.9 billion in 2008, a 23% increase over the previous year. Tourism and related industries are estimated to account more than 11% of the country's GDP.

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BUT A DECLINE CAN STILL BE A GOOD THING  
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¶5. (SBU) Citing the many problems the tourism industry has faced, El-Nahas nonetheless characterized 2009 as an "excellent" year. The global economic recession, avian and swine flu concerns, and the beginning of Ramadan in mid-August led the industry to initially forecast a 20% decline in tourism arrivals, revenue, and the number of days spent in-country by visitors this year. The fact that the industry had witnessed "only minimal" declines in these areas was cause for optimism.

¶6. (SBU) El-Nahas did not provide any definitive reason for the limited downturn, but highlighted improved domestic airline service as one possible cause. Egypt Air purchased 12 new airplanes from Brazil in the last couple of years and dedicated them solely to significantly increasing the number of flights traveling from Cairo to resort areas along the Red Sea coast. Simon Kitchen, an economist at EFG-Hermes - a leading regional bank - offered a more compelling explanation. European visitors, who form more than 70% of the foreign tourism market, have avoided more expensive tourism options this year - such as traveling to the Caribbean Islands - and have instead traveled to closer and more affordable options such as Turkey and Egypt. Many of these tourists can completely bypass Cairo and fly directly to desired "luxury" destinations such as Hurghada and Marsa Allam.

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Looking Ahead to 2010  
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¶6. (SBU) Whether or not the Egyptian tourism industry can get growth back on track is without a doubt the "biggest question," facing the industry in 2010, El-Nahas stated. The MoT has already established a goal of attracting 14 million tourists by 2011. El-Nahas revealed several strategies the industry will be pursuing in the next few years. The MoT is planning new advertising campaigns in India and China, which Egypt sees as untapped markets with the greatest opportunities for growth. It will also focus on continuing to attract Central and Eastern European tourists (primarily Russians), which generated more than 26% of all tourists arrivals through the first eight months of 2009. Egypt will also attempt to re-shape its image as a budget destination and instead present itself as a vacation spot with multiple high-end options to appeal to wealthy

Arab tourists who spend the greatest amount on hotels and restaurants. El-Nahas joked that medical tourism is "not an option since people would just die" in Egyptian hospitals and facilities, but told us that establishing "wellness centers and spas" near existing cultural destinations could help increase the appeal to wealthier tourist.

¶7. (SBU) Comment: El-Nahas, a former Hilton hotels executive for 45 years, was surprisingly upbeat both about this year and future tourism prospects. However, despite the aggressive industry marketing plans, near term success may depend on factors beyond its control. Continued weakness in the economies of most of the countries of origin for Egyptian tourists would almost certainly weaken demand into 2010. The strengthening of the Egyptian currency versus the currencies of other tourist destinations in the region may also make it harder to compete for price-conscious customers. That said, when the global economy does turn around, Egypt's tourism sector appears well-positioned to profit and continue its strong expansion.

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